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RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEHJO/AMCONSUL JOHANNESBURG 7609
RUEHTN/AMCONSUL CAPE TOWN 4952
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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER OCTOBER 12,
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11. (U) Summary. This is Volume 7, issue 41 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- SA Foreign Reserves Past \$30 Billion
- Higher-Than-Expected Budget Surplus
- Euro's Held In Gross Reserves Increase
- SA No Magnet For Talent
- Cathay Poaches SAA Pilots
- Delta Flies Smarter
- SA and China Propose Trade Swap Deal
- Safety Audit For All SA Mines
- Electricity Shortages And Rolling Black-Outs
End Summary.

SA Foreign Reserves Past \$30 Billion

12. (U) According to the South African Reserve Bank (SARB), gross gold and foreign exchange reserves exceeded the \$30 billion barrier, climbing from \$29.8 billion in August to \$30,5 billion in September. The SARB's foreign exchange accumulation was prompted by a relatively weaker rand and plenty of foreign investment in the equity and bond markets. The South African Treasury has also put its excess cash on deposit at the SARB, where it earns hard currency-related, not rand-related, interest. Four years ago, before the SARB began accumulating reserves by buying dollars in the market at appropriate moments, gross reserves were stuck below \$10 billion. In response to the improvement in the reserve position, the international rating agencies have upgraded South Africa's sovereign rating which has lowered the cost of borrowing on international markets. Although Moody's external vulnerability indicator for South Africa shows a spectacular improvement, it still lags other emerging markets. According to the International Monetary Fund's (IMF) measure that takes into account the current account deficit, as well as short-term foreign debt, South Africa's reserves still look fairly weak, at 74%, compared with an emerging market average of 112%. The IMF's recent staff report on South Africa recommended "that some further accumulation would be beneficial". The SARB has said it will continue to build its reserves during periods when the rand is strong, without affecting the value of the rand. That may well imply that the Treasury would

have to continue running a fiscal surplus to support the accumulation. (Business Day, October 9, 2007)

Higher-Than-Expected Budget Surplus

¶3. (U) The South African Government is expected to achieve a higher-than-expected budget surplus of about 1% of GDP in the current financial year, according to Efficient Research economist Fanie Joubert. This would be higher than the surplus of 0.6% of GDP projected at the time of the February budget. Ahead of Finance Minister Trevor Manuel's medium-term budget policy statement on October 30, Joubert predicted that revenue inflows should continue to dampen the need for financing for the rest of the financial year. This will relieve pressure on long-term interest rates, Joubert said. (Pretoria News, October 4, 2007)

Euro's Held In Gross Reserves Increase

¶4. (U) The South African Reserve Bank (SARB) has boosted the Euro component of its gold and foreign exchange reserves, bringing it more in line with South Africa's trade flows, foreign debt composition, and the Euros' growing role in global markets. Over the last two years, SARB's Euro holdings have nearly quadrupled to R40.1 billion (\$5.7 billion), while the proportion of Euros held in its gross reserves has doubled to 21%. Over the same period, SARB's holdings of U.S. dollars declined from 72.5% of total reserves to 64%, largely because of the declining value of the dollar. SARB research head Johan van den Heever said, "If you look at the change in Euros, you can see there has been some conscious decision." He noted that Europe is South Africa's main trading partner. (Business Day, October 4, 2007)

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SA No Magnet For Talent

¶5. (U) According to a study by the Economist Intelligence Unit, South Africa ranks lowest among 30 countries around the world in terms of attracting skilled people, a trend that does not bode well for the economy. "Being ranked last in the survey when it comes to attracting talent from the local talent pool is a very serious problem, especially when countries higher up the ladder are continuing to suck our own talent out of the country." said Derick Boshard from executive search firm Heidrick and Struggles in Johannesburg. The SAG has identified a gaping skills shortage as a constraint to faster economic growth, with the shortfall also curbing job creation, keeping the official jobless rate stuck at 25.5%. Poor education has been cited as one of the main stumbling blocks to skills development. "Less than 2% of learners achieve higher grade mathematics, inadequate for South Africa," Boshard said. (Business Day, October 10, 2007)

Cathay Poaches SAA Pilots

¶6. (U) Cathay Pacific told the South African Airways Pilots Association (SAAPA) that they would receive applications from SAA pilots and the SAAPA has passed this information to its members. The SAAPA will compile a list of interested pilots that it will submit to Cathay on October 31 and Cathay will follow-up by contacting the interested pilots directly. Cathay expression of interest comes at a time when SAA is seeking to retrench a number of its older pilots and renegotiate the terms of employment for the remaining pilots. The Cathay move would add to the ongoing exodus of South African pilots to foreign airlines. (Travel News Weekly, October 10, 2007)

Delta Flies Smarter

7 (U) Delta Regional General Manager Jimmy Eichelgruen told the local press that Delta will coordinate the timing of its recently announced New York to Cape Town flight, which is to begin on June 3, so that its passengers can disembark in Dakar and embark on its existing Atlanta to Johannesburg flight. Similarly, passengers on the Atlanta to Johannesburg flight will be able to disembark in Dakar and embark on the future New York to Cape Town flight. The arrangement will make it possible for U.S. travelers from New York to reach Johannesburg and for U.S. travelers from Atlanta to reach Cape Town without the added time and expense of a domestic flight. Delta Manager for Southern Africa Margaret Copeland added that Delta will schedule its New York to Nairobi flight to arrive in Dakar at the same time, facilitating additional combinations. The new flights are is part of an overall plan to convert Dakar into a new mini-hub that is able to handle three to four aircraft at the same time. (Business Report, October 10, 2007)

SA and China Propose Trade Swap Deal

8 (U) The South African and Chinese governments are discussing a trade swap in which China would place manufacturing plants in South Africa in return for China's greater access to South Africa's minerals. South African Deputy President Phumzile Mlambo-Ngcuka commented that China's pollution problem was the impetus for the talks. "China needs to send some of its polluting industries elsewhere because it is choking on them," she said. The new manufacturing agreement would include commodity exports from other African countries as well as Chinese investment in them. As for China's access to minerals, the talks had focused primarily on iron ore, but also included manganese and platinum group metals. (Business Report, October 1, 2007)

Safety Audit For All SA Mines

9 (U) President Thabo Mbeki asked Minerals and Energy Minister

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Buyelwa Sonjica to conduct an audit of the country's mines to determine whether they are meeting the health and safety standards in the law. The order comes after 3,200 workers were rescued after being trapped up to 48 hours 1.5 km underground at Harmony Gold's Elandsrand mine near Johannesburg. South Africa's mines kill about 200 people every year - and injure about 4,000, despite efforts from the private sector to move to zero-fatality. At least 23 illegal miners died in an underground fire in an unused shaft at Harmony's St Helena Mine in Free State province on October 7. Four miners died at AngloGold Ashanti's Mponeng mine last month. Minister Sonjica called for an amendment to the existing mining safety law to lay down minimum standards at a press conference during the fifth biennial Mine Health and Safety Council Summit on October 8. In a separate statement, she noted that the SAG struggles to enforce compliance given dire staff shortages, unclear legislation, and the difficulties in prosecuting offenders. A Harmony spokesperson welcomed the move to audit all local mines, noting that Harmony employs 54,000 people, and, regrettably, 27 people died in the past year. (Mining Weekly, October 8, 2007)

Electricity Shortages And Rolling Black-Outs

10 (U) The inadequacy of South Africa's slim electricity reserve margin of around 8% has been evidenced by significant rolling black-outs around the country. The combination of cold and wet weather, planned maintenance at 10 power stations (4,700 MW), unexpected outages at 3 power stations (2,030 MW), and additional losses due to wet coal supplies (1,400 MW) has reduced state electricity supplier Eskom's 42,000 MW of installed capacity by up to 20% since October 9. As a result, Eskom has enforced "load-shedding" (enforced rationing or rolling black-outs) in

Pretoria and other municipal areas to cope with the electricity shortfall. Eskom asked its industrial customers, such as gold mines and operators of aluminum, ferrochrome, and steel furnaces to share the power sacrifices. (Business Day and Pretoria News, October 10-11, 2007)

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